Vision

5. *Vision Coverage free for employees - $120,000*

Additional Information: Previous quotes for employee paid coverage were as follows:

Employee Only	$5.98 per month
Employee plus one	$11.96 per month
Employee plus family	$20.04 per month

This information needs to be updated if the BOCC proceeds with optional employee paid coverage.

Dental

6. *Dental Coverage free for employees - $800,000*

Additional information: Previous quotes for employee paid coverage were as follows:

	Cigna	Delta Dental
Employee	$31.08 per month	$36.28 per month
Employee plus spouse	$60.60 per month	$62.76 per month
Employee plus family	$101.12 per month	$96.73 per month
Employee plus child(ren)	$69.92 per month	$62.55 per month

This information needs to be updated if the BOCC proceeds with optional employee paid coverage.

EAP

7. *Employee Assistance Plan Coverage - $45,000*

Pharmaceutical

8.
   a. Pharmaceutical Card with a $10/$50/$70 copay - $475,000
   b. Pharmaceutical Card with copay-$10 generic/50% brand-$475,000
   c. *Pharmaceutical Card with $10/$20/$35 copay - $950,000*

Italicized options are part of the current program

Dependent Subsidy

9. a. Subsidize Dependent Coverage by approximately 50% - $800,000

	Per Pay Day Rate*	Monthly Rate
Spouse	$203	$440
Each Child	$67	$145
Family Cap	$304	$659

b. Subsidize Dependent Coverage by approximately 75% - $1,500,000

	Per Pay Day Rate	*Monthly Rate*
One Dependent	*$110*	*$238*
Two or More	*$130*	*$282*

*A minimum rate of $110 per pay day for dependent coverage would apply.

Note: Currently, 498 out of 1668 active employees, retirees, COBRA, and surviving spouses have dependent coverage.

Retiree Premium

10. a. Retiree Coverage at a cost of $100 per month per retiree (only those that currently qualify for free coverage) - $550,000 plus future liability
b. Retiree Coverage at a cost equal to the subsidy retirees receive from the Florida Retirement System- $550,000 plus future liability
c. Offer free coverage to retirees per existing resolution, but limit free coverage to the number of years served under Monroe County Employment - $550,000 plus future liability
d. *Offer free coverage to retirees per existing resolution - $850,000 plus future liability.*

Note: 270 out of 2,592 covered individuals are retirees.

*Changes in the group insurance program will reduce the County's liability which is currently estimated at $90 million.

Italicized options are part of the current program

Other

11. *Chiropractic, Acupuncture, and Massage Therapy covered consistent with current plan document. - $75,000*

Italicized options are part of the current program

* All of the above costs are estimated annual figures. If changes are made to the existing insurance plan, many of these changes would be effective 1/1/04.

Attachments

Entity	Number of Active & Retirees		Coverage	Entity pays per month per employee	Employee pays for own coverage	Employee pays for one dependent	Employee pays for two or more	Family Coverage	Deductible	CO-Pays
				Per Month	Per Month	Per Month	Per Month	Per Month		
Monroe County BOCC	Active	1396	Medical, Dental, Vision	$720/mo	zero				300/600	20% - OOP 2720
& Other Constitutionals			Pharmaceutical, EAP							10/20/35 RX retail
			Life 20/40							25/50/87.50 RX mail
	Dependents		Med/Den/Vis/RX/EAP			$238/mo	$282/mo	zero	300/600	same as above
	Retiree	271	Med/Den/Vis/RX/EAP	In above number	zero	$238/mo	$282/mo	zero	300/600	same as above
			Life 20,000							
Monroe County School Board	Active	800	Medical/Prescription Only	$461/mo for employee	$130.24	zero	zero		$750/1500	25% - OOP 10,750
			Life 10/10						$100/200	10/25/40 RX retail
										14/40/70 RX mail
	Dependents		Medical/Prescription Only	$101/mo for family				$358.84/mo		as above
***NOTE: Premiums pd only**	Retiree	123	Med/RX/Life 2500	$2827 per calen yr.					$750	25% - OOP 3250
10 months				***school board subsidizes**						
			Dental monthly	**only if 10 yrs. of service**	$22.80	$40.80		$57.60		
			Vision monthly		$5.98	$5.98		$5.98		
City of Key West	Active	460	Medical/RX	$543.91					ER -100	$25 outpt. -OOP1500
			$15,000 Life - **Emp. Only**							15/30/45 RX retail
										30/60/90 RX mail
	Dependents		Medical/RX			$330.46-Children	$445.27-spouse	$775.73- family		
	Retiree	26	Medical/RX		<65-543.91					
					>65-291.54					
			Dental - monthly		$29.50			$37.95		
			Vision - monthly		$5.74			$8.43		
FKAA	Active	250	Medical, Dental, Vision	$425.20	zero				100/300	10% - OOP 1500
			Pharmaceutical							10/15 RX retail
			Life 10/20							No RX mail in
	Dependents		Med/Den/Vis/RX	subs. 1/3		$308.60	$472.50			10% -OOP 3000
	Retiree <65	2	Med/Den/Vis/RX		$425.20					10% - OOP 1500
	retiree pays									
Keys Energy (CES)	Active	152	Medical/RX	$560.51	zero				ER $100	$25 out pt. -OOP 1500
			Life/ann.salary next 1,000						IP $250	10/20/35 RX retail
										20/40/70 RX mail
	Dependents		Medical/RX			$269.48 children	$350.31 spouse	$619.80 family		If out of network then
	Retiree	98	Medical/RX	<65 - $560.51; >65 - 256.30						there is a $500 deduct.
			Dental - monthly		$28.91			$42.80		
			No vision							

Five-Year Summary of Claims by Entity

Office	Claims FY 98	Participants FY 98	Claims FY 99	Participants FY 99	Claims FY 00	Participants FY 00	Claims FY 01	Participants FY 01	Claims FY 02	Participants FY 02	5 year avg. Participants	5 year avg. Claims	Avg % of Participants	Avg % of Claims
Clerk of the Court	548,929	189	589,104	183	327,698	169	628,732	171	514,034	168	176	521699	7%	7%
Property Appraiser	326,076	79	208,232	76	252,411	64	271,676	67	391,304	66	70	289940	3%	4%
Tax Collector	204,088	89	194,046	76	219,530	86	280,015	81	399,734	91	85	259483	3%	3%
Supervisor of Electior	33,879	20	18,666	20	73,135	21	60,544	22	51,138	22	21	47472	1%	1%
Sheriff	2,061,080	915	2,349,876	909	2,712,621	919	2,987,831	960	4,302,110	1004	941	2882704	37%	38%
Court Admin.	101,601	57	170,872	56	73,252	77	111,988	54	105,497	58	60	112642	2%	1%
BOCC	2,518,310	891	1,892,743	852	2,551,543	785	2,654,980	775	2,400,934	792	819	2403702	32%	32%
Mosquito Control	127,384	76	106,399	77	155,972	80	187,144	86	162,957	95	83	147971	3%	2%
TDC	1,263	5	2,087	4	1,415	4	7,220	4	8,616	7	5	4120	0%	0%
Retirees	355,939	218	733,087	251	908,149	298	1,151,992	312	1,015,924	325	281	833018	11%	11%
COBRA	52,306	6	79,321	8	254,924	13	67,788	6	74,399	9	8	105748	0%	1%
	6,330,855	2545	6,344,433	2512	7,530,650	2516	8,409,910	2538	9,426,647	2637	2550	7608499	100%	100%
Claims excludes pharmaceutical expense														

28.10

Health care spending rises at fastest pace in years

An early look at numbers for 2001 shows a 10 percent rise. Hospital and drug costs are the main factors.

© New York Times

WASHINGTON — National health spending shot up 6.9 percent to $1.3-trillion in 2000, the government said Monday. It was the largest one-year percentage increase since President Bill Clinton proposed to guarantee health insurance for all Americans in 1993.

Hospital and drug costs were the main factors in the latest increase. The report also cited more spending on Medicare and resistance to the constraints of managed care.

Growth in health spending outpaced the 6.5 percent growth of the economy as a whole in 2000 (before adjusting for inflation), the figures show. Health care now accounts for 13.2 percent of the nation's total output, up from 13.1 percent in 1999 and 12 percent in 1990.

Studies analyzing preliminary 2001 numbers have found that health care costs increased by more than 10 percent in 2001, far more than the 6.9 percent jump in 2000 cited in the government report.

Numbers in the report help explain why health care is roaring back as a potent political issue in this election year.

The report, from the Department of Health and Human Services, says that health costs and spending are likely to climb faster even though the economy has been weak. As a result, it says, consumers will have to spend more of their own money on health care, and employers may be less inclined to offer health insurance to workers because health benefits have become more expensive.

"Increased job layoffs in the slowing economy will lead to a less competitive job market, reducing private employers' incentive to shoulder rising health care costs, potentially increasing the number of uninsured persons," said the report, published Monday in the journal *Health Affairs*. "Competition may force employers to shift a larger share of rising costs to

Please see HEALTH 10A

Health from 1A

workers, who may no longer be able to afford accelerating out-of-pocket costs. Fewer employers may offer health insurance, and the recently unemployed are often left without coverage."

"Competition may force employers to shift a larger share of rising costs to workers, who may no longer be able to afford accelerating out-of-pocket costs. Fewer employers may offer health insurance, and the recently unemployed are often left without coverage."

— DEPARTMENT OF HEALTH AND HUMAN SERVICES REPORT

Consumer groups and employers have sporadically issued reports documenting a rise in drug prices and insurance premiums. But Monday's report is the first authoritative, comprehensive government study that pulls together data for all parts of the health care industry.

"The new national health spending estimates may well mark the end of an era of reasonably affordable health care cost growth," said Katharine R. Levit, chief author of the report. Levit is director of the national health statistics group at the department's Center for Medicare and Medicaid Services.

The surge in health costs puts pressure on politicians to respond, but also makes them anxious about the cost of expanding public programs or offering large new subsidies for the purchase of insurance. President Bush and congressional Democrats have offered rival proposals to provide health benefits to the unemployed and prescription drugs for the elderly.

The nation spent an average of $4,637 on health care for each person in the United States in 2000, up from $4,377 in 1999, $4,001 in 1997 and $2,966 in 1991. The numbers were not adjusted for inflation.

Levit predicted "a stronger increase in the health spending share of gross domestic product in the near future." Health care employment, prices and premiums all increased last year, she said.

The study identifies two main reasons for the surge in health spending: resistance to managed care by doctors, hospitals and consumers, and a decision by Congress to restore money cut from Medicare, the federal program for the elderly and disabled, which accounts for 17 percent of all health spending.

"Consumers increasingly choose less restrictive forms of managed care," which cost more than health maintenance organizations, the report said. In addition, it observed, "the consolidation of hospitals into networks and

24

systems" has increased their bargaining power, so they can extract higher payments from HMOs and other insurers.

National health spending rose $83.9-billion in 2000, and hospital care and prescription drugs accounted for 45 percent of the increase.

Spending on hospital care rose by $19.9-billion, or 5.1 percent, to $412.1-billion, while drug spending grew $17.9-billion, or 17.3 percent, to $121.8-billion.

The figures for hospitals were significant because hospital spending had not risen more than 4 percent in any year since 1993. Outpatient hospital revenue is growing twice as fast as inpatient revenue. Hospitals say they need the money to cover rising labor costs. Weekly wages paid to workers in private hospitals rose 4.1 percent in 2000, up from 2.3 percent in 1999, the report said.

Congress slowed the growth of Medicare when it passed the Balanced Budget Act of 1997. But an all-out lobbying campaign by hospitals and other health care providers persuaded lawmakers that the cuts had begun to harm patients. So Congress, in 1999 and 2000, passed laws increasing payments to providers.

"Medicare hospital spending made a comeback in 2000, similar to that in nursing homes and home health agencies," the report said.

The growth in prescription drug spending slowed a bit from 1999 to 2000, but drugs were still the fastest growing category of health spending. Drug spending increased 19.2 percent in 1999 and 17.3 percent in 2000, the sixth consecutive year of double-digit growth.

Total national spending on prescription drugs doubled in the five years from 1995 to 2000 and tripled in the decade from 1990 to 2000, according to government data.

The report cites several reasons for the rapid increase, including the effects of prescription drug advertising, wider availability of insurance to cover drug costs, an increase in the number of prescriptions written by doctors and a shift toward greater use of new, higher-price drugs. Some drugs can reduce health spending by reducing the need for hospital care, economists say, but that is not true of all drugs.

Hospitals accounted for 31.7 percent of all health spending in 2000, down from 42 percent in 1982. By contrast, prescription drugs accounted for 9.4 percent of the total in 2000, double their share in 1982.

Highlights of the report included these findings:

- Private health insurance premiums increased 8.4 percent in 2000, to a total of $444-billion, after rising less than 7 percent a year from 1996 to 1999.
- Medicare spending on home health care rose 0.8 percent in 2000, the first increase in four years. Medicare spending for home care had declined by more than 35 percent from 1996 to 1999, after growing for years at double-digit rates.
- Spending for nursing homes bounced back in 2000, after growth slowed from 1995 to 1999. Spending rose 3.3 percent in 2000, to $92.2-billion.

— Information from the Los Angeles Times was used in this report.

JOHN E. PETERSEN

Here's to Your Health

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The economic slowdown of last year demonstrated yet again that the state and local government sector does not float above the private sector. That reality is rearing its head now with health costs and the increasing inability to either contain them or at least finance them. This is true not just for Medicaid and other public health programs but, more to the point, for employee insurance.

For states and localities, the unhealthy numbers run this way: There are some 15 million full-time state and local workers. Their annual wages add up to about $600 billion. In addition, they receive benefits, including health insurance, which alone equals about 10 percent of wages. So the health costs to states and localities are in the area of $60 billion. Since public employees, just as those in the private sector, usually contribute to health insurance benefits, the entire sum spent on health insurance is more on the order of $100 billion. That cost is now increasing by double digits and will continue to do so.

The growth comes on the heels of a period of relative calm. One of the great—if temporary—victories in achieving low inflation rates in the early 1990s was the containment of health care costs. The key solution was the adoption of managed care—letting insurance entities such as health maintenance organizations use their leverage to force down health-provider fees and limit patient use of services. But after helping make drastic cuts in health care expenditures from 1993 through 1997, the approach ran into popular and political opposition. HMOs lost much of their ability to check increases, and they are currently operating on thin margins.

Now, the cost of health services is rising again. In one sense, it is part of a trend that reaches back nearly 20 years. To get an idea of the relentlessness of the growth curve, the overall cost-of-living index grew in the period from 1983 to 2001 by 75 percent. For some things such as shoes and clothing, prices grew by only 15 to 20 percent. But medical-care prices grew by 177 percent overall, with drugs and hospitals moving up by a heart-stopping 207 and 250 percent, respectively. Medical expenditures now represent more than 15 percent of consumption spending, and the share grows every year.

Either we take steps to halt the escalation of health care costs or we make plans for the higher bills to be paid.

The causes for the most recent increases are manifold, ranging from the aging of the population to the rapid development of new medical technologies and the increased use of drugs. But the root cause is the political difficulty of either doing something to halt the trend or, if the rising cost is accepted, then planning for the higher bills to be paid.

Although a huge number of people are uninsured, the American approach is to leave the provision of medical services as much as possible in the private sector and to subsidize it—even if selectively, as with Medicaid and Medicare—from the public sector. Freedom of choice of service and freedom from having to pay for it are the twin lodestones of popular demand.

But who will pay for those demands? When health care costs first started to rise faster than inflation in the late 1990s, state and local governments were in a strong fiscal position, with salary levels in check. The health care increases could be absorbed. Now, in a slower economy, things are different. Health care insurance premiums rose at a rate of more than 10 percent in 2000, and by more than 12 percent in 2001. According to estimates by health care providers, premiums will rise by 12 to 15 percent this year. For many governments, especially small ones, the rise could run to 25 percent or more. In fact, you don't have to be small to see big increases in premiums. CalPERS, the giant California pension fund, which has health care programs for 1.25 million employees and retirees, is projecting a 25 percent increase in premiums. How much those premiums will be divided between the employer and employee will be a key question.

It is not a foregone conclusion that the nation's preference for health spending is a bad thing. People want health protection, and there is economic evidence that it brings substantial benefits. Public employees are well justified in seeing health care as a valuable benefit.

The difficulty is the monumental reluctance to present the health bill to the public. Costs are buried, and the subject is avoided. The rapid disappearance of the federal surplus, not to mention the budget woes of states, amply demonstrates that it is unwise to adopt policies (including multi-year tax cuts) based on a few good years as opposed to long-term trends. As David Walker, the U.S. comptroller general, has pointed out, members of today's relatively large workforce must increase savings and thereby increase future productivity. In future years, their ranks will diminish, while those of dependents will increase. Hard decisions need to be taken now to avert the future crises of a rapidly aging nation that wants good health but refuses to pay the bill. ■

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STEVE BARRETT

COST CRISIS

Burk Uzzle

A vicious spiral in healthcare costs is stretching the affordability of health insurance for many small employers. Could it leave Florida swimming in a sea of uninsured workers?

By Mark R. Howard

No Coverage

Uninsured rates in major counties

MIAMI-DADE	24.6%
ORANGE	15.2
PALM BEACH	15.1
BROWARD	14.8
HILLSBOROUGH	13.9
PINELLAS	13.6
DUVAL	12.1

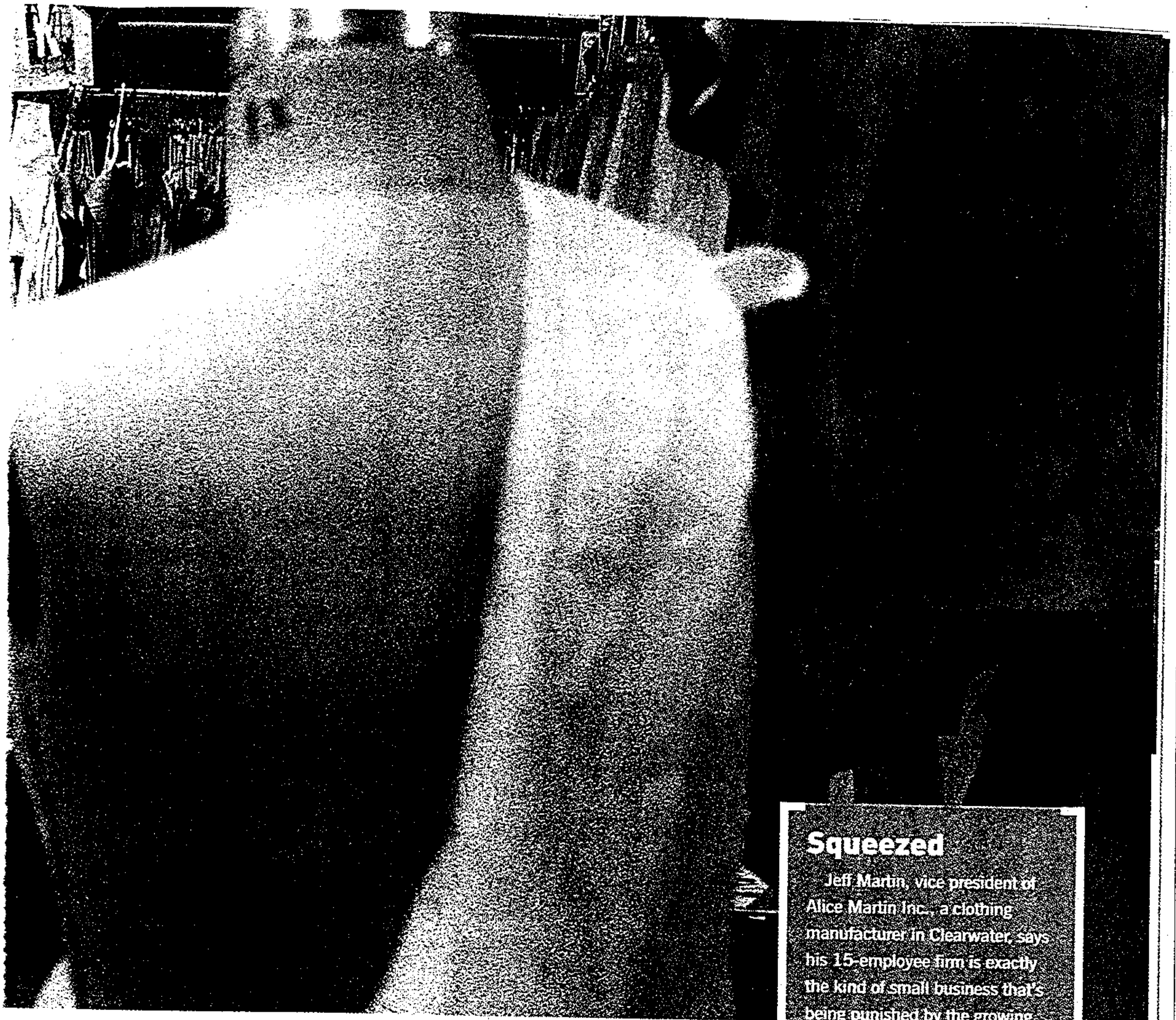
Source: Agency for Healthcare Administration

Brian Klepper wears the mantle of Chicken Little proudly. Klepper, 50, is a former analyst at the Institute for Child Health Policy in Gainesville who runs a small healthcare consulting business in Jacksonville. He now makes the rounds of healthcare conferences and forums nationally, promoting a reform organization he helped found, predicated on the notion that the sky may be falling on the nation's employer-based healthcare system.

Klepper tells how he was out sailing one afternoon in 1999 when a simple calculation struck him like a blast of stale air. He realized that if only one in nine people insured through their employers loses health coverage, then the number of uninsured people will grow by half. In Florida, that would mean the 2.5 million or so Floridians who are uninsured would become more than 4 million. Nationally, the number of uninsured would rise to nearly 60 million — with potentially catastrophic implications for the whole health insurance system.

What he feared, Klepper says, may now be occurring — courtesy of the return of a vicious spiral in health costs that is making healthcare insurance increasingly unaffordable for many businesses, particularly small businesses. "I'm arguing that we already have more uninsured than we think we have and that the number of uninsured is about to be much, much larger than we ever imagined. We are not set up to deal with it."

Some question Klepper's credentials as guru — and his aggressive networking efforts in trying to build a financial base for



his reform effort. But few quarrel with the fact that costs are indeed spiraling again. And enough companies think Klepper's doomsday scenario is credible enough that they've been willing to lend some initial corporate encouragement to his group.

After a period beginning in the mid-1990s that saw health insurance costs keep a relatively even keel, employers were jolted by health insurance premium increases of 15% and more at the end of 2001. Small employers have been hit the worst, clobbered with increases of 20% to 50%. Industry analysts say employers should expect another round of similar price jumps in 2003, and the analysts expect double-digit increases to be the norm for the next several years.

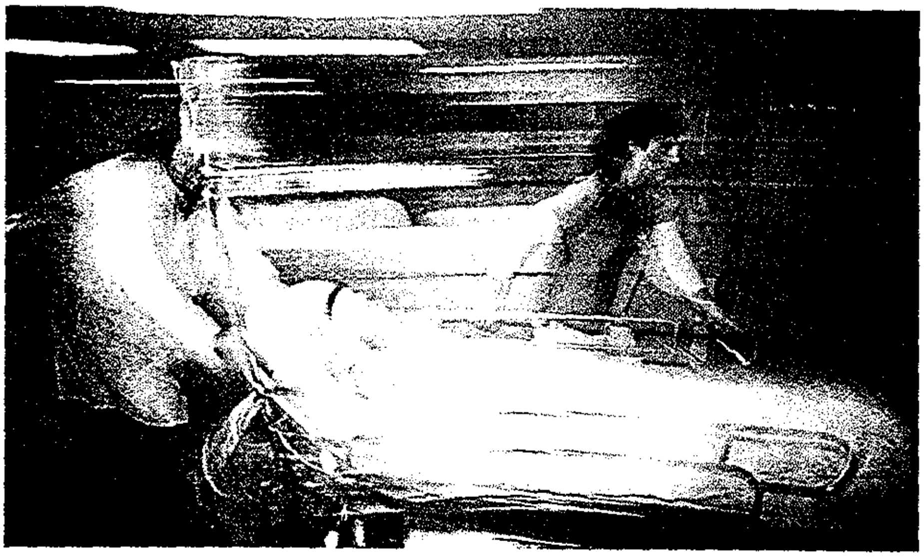
Big employers have been able to cope with the increases by using their clout to bargain, altering their health plans or shopping for new providers. Many small employers, however, with less leverage in the market, are scrambling. And Florida is a state of small businesses — fully two-thirds of the state's 600,000 businesses have five or fewer employees.

(The availability of health insurance for workers at small firms — the job-creating engines that make up the state's most dynamic business sector — was already limited. Among uninsured workers in Florida, nearly two-thirds are employed by companies that simply don't offer health insurance, according to a state study in 2000.)

In the wake of the premium increases, many companies that offer health insurance to their employees have increased

Squeezed

Jeff Martin, vice president of Alice Martin Inc., a clothing manufacturer in Clearwater, says his 15-employee firm is exactly the kind of small business that's being punished by the growing cost of health insurance. With "a couple million" in sales and slim profit margins, he says he can't afford to pay hundreds of thousands in health premiums and stay afloat. He says some insurers have quoted him health premium rates recently that would have meant his employees would have paid half their salaries to be insured. Meanwhile, mandated coverages mean that less expensive, bare-bones policies aren't available. "You feel like you're losing employees every day when you can't offer certain benefits."



RESOURCES

As more workers lose coverage through their employers, will growing ranks of uninsured swamp already overburdened hospital emergency rooms?

Florida's Uninsured

How many: Approximately 2.5 million

Who are they: The indigent, who are covered through Medicaid, are not counted in the ranks of uninsured, who most often could be classified as working poor: About four in five uninsured are workers or dependents of workers typically in low-wage service sector jobs at small companies. Some are between jobs; most aren't offered insurance at work; others can't afford it or choose not to buy it.

What do they do when they get sick? Mostly, they put off going to the doctor — and then go to the emergency room. Uninsured people don't use the emergency room any more often than insured people, but many use the ER as their usual source of basic care — at much higher cost to the system. And by not getting the basic care that would be more available if they had insurance, the uninsured tend to get sicker and die sooner: An uninsured woman with breast cancer has a 50% higher risk of death than the privately insured.

deductibles and co-pays or cut benefits. For others, "the premium increases were so large and so unexpected that for the first time, employers offloaded" a big chunk of the increased cost of insurance to their employees, Klepper says.

Many small firms are simply dropping coverage. A survey by the Florida Chamber Federation indicated that in the past two years the percentage of Florida companies offering health coverage has declined by nearly 15%. The same survey indicated that 42% of Florida business owners that still offer coverage will consider dropping it if insurers hit them with another big increase in premiums.

At Alice Martin Inc., a 15-employee clothing manufacturer in Clearwater, Jeff Martin says the most bare-bones policy he can buy now costs at least $300 a month per employee, with family plans running $900 to $1,200 a month per employee. Martin, who's had to do without coverage before, says another round of increases may put it out of reach. "You feel like you're losing employees every day when you can't offer certain benefits," he says. His firm competes against foreign companies with lower wages and no benefits and simply doesn't have the kind of margins that allow it to pay hundreds of thousands in health premiums, Martin says.

Descent into chaos?

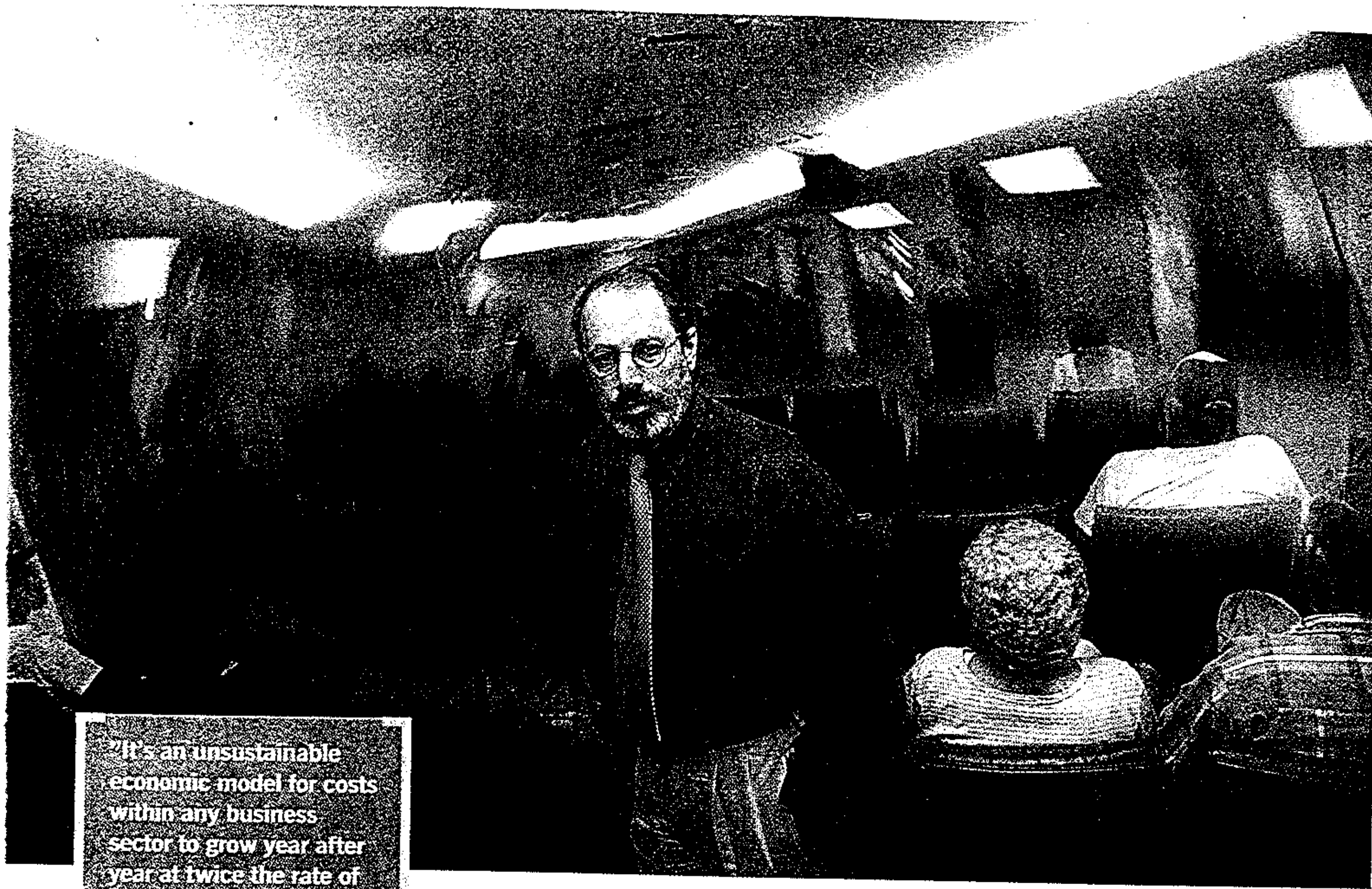
For society, the issue of the uninsured involves the human needs of individuals who need care for themselves and their dependents: Researchers have found for years that the uninsured get sicker and die earlier than those with insurance. Beyond the moral issue of providing care for the nation's citizens, health insurance has become the No. 1 benefit in attracting and retaining workers. And researchers are beginning to find a real financial return on healthcare for employers whose workers are covered. "Businesses should look at healthcare spending as an investment rather than a cost of doing business," says Paul Fronstin, a senior research associate with the Employee Benefit Research Institute in Washington.

Ultimately, Klepper believes the uninsured are players in a scenario in which uncontrolled healthcare costs could destroy the employer-sponsored health insurance system that has served the country well for 50 years. Businesses see the system as a "house on fire," Klepper told the audience at a forum sponsored by Blue Cross Blue Shield of Florida in April. "It's an unsustainable economic model for costs within any business sector to grow year after year at twice the rate of general inflation, productivity or any other measure," he says.

How do the dominoes fall in Klepper's worst-case scenario?

As health insurance becomes less affordable, the number of uninsured will rise dramatically. Then, Klepper says, the healthcare safety-net infrastructure — big public hospitals like Shands in Jacksonville and Jackson Memorial in Miami-Dade, and private, not-for-profits like Tampa General — will fray under the fi-

The largest group of **uninsured in Florida is 18-24** (27.1% of all uninsured).



"It's an unsustainable economic model for costs within any business sector to grow year after year at twice the rate of general inflation, productivity or any other measure," says Brian Klepper of the Center for Practical Health Care Reform.

nancial burden of caring for big numbers of newly uninsured patients who can't pay for treatment at the hospitals' emergency rooms and clinics. Some of those hospitals could go out of business, says Klepper, maintaining that "every safety-net hospital is poised for collapse."

Ultimately, in Klepper's scenario, overburdened public hospitals will begin to kick more of the uninsured up the ladder to what he calls the "carriage-trade hospitals" — facilities that cater to more well-to-do patients with insurance. Aside from social friction, "when that happens the cost of care will have moved high enough that the middle class begins to lose coverage" — a crisis that would mobilize the country politically.

As the various competing interests — doctors, consumers, insurers, drug companies and hospitals — fight it out, pressure would build for a government-run national healthcare system that Klepper and others believe would be hugely inefficient and wouldn't invest in innovation. Such a system, they say, would be even more subject than the present one to the "perverse influences" of the competing interests seeking to structure it to their own advantage — and would ultimately do nothing to hold down costs.

Klepper believes the advent of a government-run system would produce a boomlet in "concierge" physicians and hospitals that would essentially opt out of the system by setting up practices to treat wealthier patients who could pay out-of-pocket for their healthcare. "It's a mistake to think that by changing the finance mechanism that you are improving" the factors that are driving costs, Klepper says. "They are embedded in the way we provide care."

Trends

There are reasons to take Klepper with a dose of moderation. For one, financial problems at Florida's big public hospitals aren't due exclusively to providing care for the uninsured. In Jacksonville, Shands has had a plethora of problems that have brought it to the brink of insolvency. Tampa General, meanwhile, is actually in better financial shape than it was three years ago and has operated in the black for the past two years after converting from public to private not-for-profit status. Jackson Memorial in Miami-Dade County receives a half-cent in county sales tax money, which

Healthcare spending now comprises $1.3 trillion a year, more than 14% of the country's gross domestic product.

28.10

Among Floridians under 65, nearly 17% are uninsured.

What's Driving Healthcare Costs?

> More people are covered by insurance, increasing demand for services.

> Benefits have improved.

> An aging population with better benefits consumes more healthcare.

> Consumers, angry with perceived problems with HMOs, have shifted away from HMOs and managed care toward higher-cost insurance models like PPOs that offer more choice.

> As incomes have risen, so has utilization of healthcare services.

> Consolidation of hospital ownership has cut into the bargaining power of insurers — and their ability to control costs.

> Technological advances and drug costs drive costs upward — consumers want the latest treatments, stimulated sometimes more by drug companies' marketing than by solid medical evidence.

> Physicians and other providers don't follow best practice models, leading to wide variations in cost and quality of treatment for similar conditions.

> Insurance structures isolate consumers from the financial consequences of their lifestyle choices and their demands for unlimited services.

has given it a strong operational base.

In addition, Klepper's vision, if true, would represent an abrupt reversal of most recent trends in health insurance. The country has essentially been living with about the same percentage of uninsured for nearly 20 years. Since the late 1990s, as a matter of fact, both the percentage and absolute numbers of the uninsured actually had been declining slightly, courtesy of the healthy economy.

Why? Competition for workers forced many smaller firms to add health insurance to attract and retain employees: Nationally, the number of those who were insured through their employers began growing in 1997, and the percentage of small employers offering coverage began increasing in 1998, according to the Employee Benefit Research Institute. In addition, more employees worked for large companies, which are more likely to offer health benefits.

In fact, during the late 1990s the percentage of their health premiums that workers had to pay actually had been going down — employers ate a bigger portion of the premium increases, according to the EBRI. And insurance began covering a broader spectrum of healthcare expenses, from prescription drugs to so-called "complementary and alternative medicine" — acupuncture, chiropractors, etc.

Some believe the cuts in benefits and coverage by some employers is a short-term trend that will reverse as the economy picks up steam again. Competition for workers, they reason, will continue to force employers to offer coverage, and the number of uninsured could begin falling again.

42% of Florida business owners will consider dropping health coverage if insurers hit them with another big increase in premiums, a Florida Chamber Federation survey found.

To dispute that view, Klepper says the most important factors that held health costs at bay — a booming economy and the effects of managed care — have lost their clout. He cites anecdotal evidence indicating the cost spiral has already begun to bite: Profit margins have declined markedly at "carriage-trade" hospitals. And at many public hospitals around the country, the number of emergency room visits nationally since December has jumped — indicating that numbers of the newly uninsured are resorting to the emergency room for care.

Indeed, while public hospitals in Florida don't report a recent huge surge in emergency room usage, Jacksonville Shands, Jackson Memorial and other facilities report upticks in the use of the emergency room during the past year. "We weren't prepared for it," says Bernard Cohen, vice president of managed care at Jacksonville Shands. "We do have a problem. It's a statewide problem."

Mandates

Meanwhile, the availability of small-group insurance has been shrinking throughout Florida, where only six companies now write small-group policies. Some health insurers, unable to get the rate increases they say they need to profitably offer small-group coverage in Florida, are fleeing the state, says Sam Miller, spokesman for the Florida Insurance Council. (Ironically, the insurer that provided coverage for the Insurance Council's five-person staff pulled out of Florida earlier this year, leaving it and other small Tallahassee lobbying outfits scrambling for new coverage.)

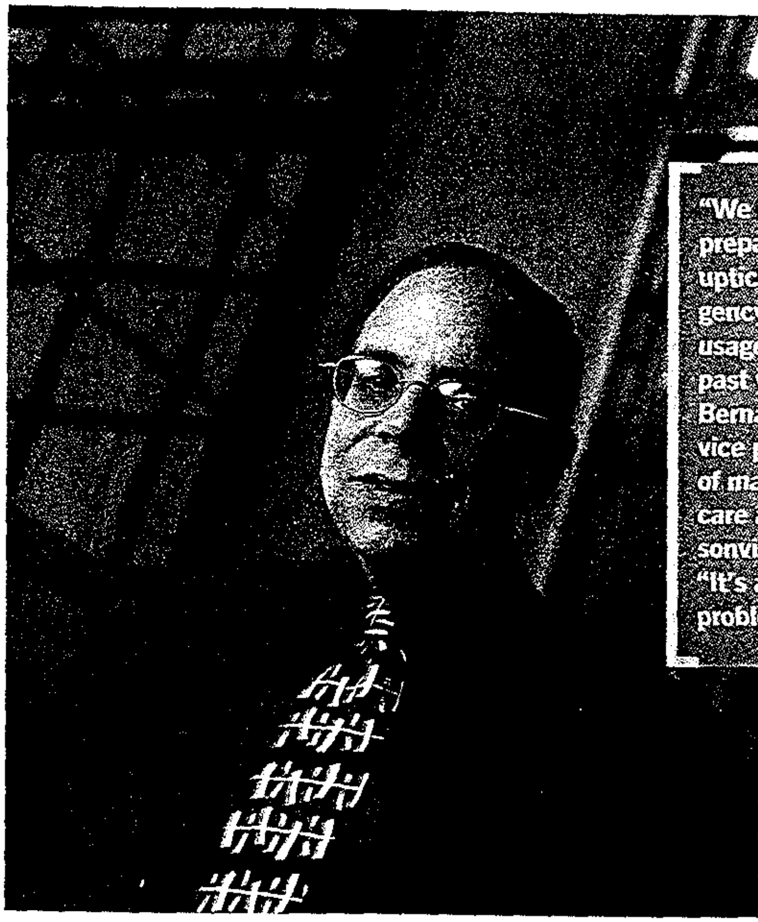
The cost spiral has also eroded the availability of "stop-loss" coverage that in the past has enabled some companies to self-insure. And Florida rules that limit co-pays to $15 also add to costs: According to Mark Wilson, senior vice president of the Florida Chamber of Commerce, letting insurers offer policies with a $30 to $50 co-pay combined with higher deductibles could lower premiums by 15% to 20%.

A particularly sore point for both insurers and small businesspeople is the high number of "mandated benefits." Since 1993, the state Legislature has created 48 required coverages for insurers that amount to one of the nation's most extensive sets of mandates, second only to Maryland. The mandates, with some exceptions for HMOs, include acupuncturists, chiropractors, coverage for cleft palate, dermatologists, maternity care, podiatrists, mammograms and HIV protections. Individually, many of the mandates seem reasonable; collectively, however, they limit flexibility and increase the cost of health insurance by 15% to 20%, according to a state analysis.

Some insurers say the mandated benefits prevent them from offering small employers a basic package to cover, for example, a limited number of visits to a primary care physician each year along with catastrophic coverage in the event of a major illness or injury. Martin, the clothing manufacturer in Clearwater, says furiously: "I don't have a single worker who will get pregnant. Why can't I opt out of that coverage?"

One hospital, Sarasota Memorial, even looked into getting an insurance license so it could begin offering coverage to local small businesses but was deterred by the high number of mandated coverages that would have limited its flexibility.

Last month, the Legislature passed a pilot "health flex plan" during its special session. The plan, to be offered in four test markets around the state, will allow health insurers to offer uninsured consumers a stripped-down policy that excludes Florida's mandated benefits.



"We weren't prepared" for an uptick in emergency room usage in the past year, says Bernard Cohen, vice president of managed care at Jacksonville Shands. "It's a statewide problem."

Innovation

The system is not without innovation — most of it involving new policies from insurers that let employers shift varying degrees of cost and risk to workers. Blue Cross Blue Shield will launch its new Blue Options package of health plans this summer beginning in Pensacola, offering consumers a wider choice of deductibles and co-pays. "There will be greater emphasis on providing information and services to help consumers make choices for themselves," says Craig Thomas, the insurer's vice president of product development. And Humana has launched a new health insurance plan in the Jacksonville market — initially only to large employers, however — that aims to cut costs by providing more choice to employees. The plan, SmartSuite, lets employees choose from among four bundles with six plan options. Young employees who needed only coverage in case of a catastrophic illness could choose such a plan and keep premiums down by paying a high deductible.

Florida Insurance Commissioner Tom Gallagher has assembled a task force of industry experts to explore possible remedies, including allowing small businesses to offer medical savings accounts. Under current Florida law, individuals can set up an MSA, but small groups are prohibited from allowing workers to use pre-tax income to build up an account to pay future medical bills. "The mission of the task force is to come up with a standard and basic policy for small groups," Gallagher says. "We're very concerned."

Gallagher says he'd like to reopen a "last resort" state risk pool for health insurance but doesn't see how it can be funded given the state's financial situation.

Meanwhile, Orange County has opened nine clinics in the past year aimed at providing care to the uninsured ["Leadership," page 76]. And a group of large Florida employers, including Lockheed Martin, Walt Disney World and Universal Studios, has decided to give financial rewards to doctors who meet certain quality standards and are highly rated by their patients. The group, called the Central Florida Health Care Coalition, has obtained combined "clinical, financial and patient-satisfaction data" on individual local doctors for the first time.

Well and good, says Klepper, but while creating more incentives for providers and choices and levers for consumers may help in the short run, the ultimate issue remains cost and whether rising costs will continue to price health insurance beyond the reach of more employers.

Kelly LaDuke

In Florida, 28.6% of Hispanics are uninsured, compared with 19.6% of African-Americans and 13.2% of white, non-Hispanics.

INNOVATION

Orange County and 16 partners, including area hospitals and non-profits, have opened nine neighborhood-based clinics in the past year to provide care to the uninsured.

In the wake of his sailboat brainstorm, Klepper and several associates in Jacksonville started a reform effort called the Center for Practical Health Care Reform. The center's advisory board now includes representatives of Microsoft, Dow-DuPont, Tufts Health Plan, Southwest Airlines, General Motors and other insurers, employers and healthcare providers. "That kind of buy-in from big national companies for a little effort that began in Jacksonville ought to tell you something about how seriously they see this," Klepper says proudly.

Klepper has tried to leverage each corporate endorsement to prospective supporters — in the process, rankling some early friends of his efforts who didn't appreciate his aggressive use of their names in trying to build a power and financial base for his effort.

Klepper's group has an evolving list of basic principles for reforming the employer-based health insurance system that he says will help control costs and can be supported by all the stakeholders in the system. Insurers, providers and consumers will all have to give a little if the present system is to survive, he says.

One of the center's principles, for example, involves so-called "evidence-based guidelines" that reflect proven best medical practices. In Minnesota, he says, all the health plans use the same protocols for treating the 50 most common medical conditions. Another principle involves accountability — making performance data available on practitioners, institutions and health plans and holding consumers accountable for some of their own lifestyle choices.

A third involves finding some combination of government and private insurance that provides a basis on which to insure everybody. The uninsured get care anyway, Klepper says, with the costs shifted ultimately, if raggedly, onto insured patients. "We have to pay for it. We can't manage it if we can't control it."

Ultimately, he says, the solution will have to be national in scope. Why save the present system if it has come to such a state? The system, he says, has been extremely effective at generating medical advances and new infrastructure that has made the U.S. the world leader in medical technology and treatments.

In addition, "employers want to save it. It's in their interest to retain control of health benefits, the single most-prized benefit for attracting and retaining employees — and for cultivating productivity in the workforce." ❑

28.10

Insured Workers Are Paying More Of Health Bills

By PETER LANDERS

A nationwide survey has confirmed what many workers already know: They are being asked to pay more of their health-care bills out of their own pockets.

People who get family health insurance through their employers have to pitch in $2,084 on average this year toward the cost of that insurance, up 16% from 2001. Employees who get coverage just for themselves are contributing $454, up 27%. The figures come from a survey released yesterday by two nonprofit research organizations, the Kaiser Family Foundation and the Health Research and Educational Trust.

Employees also are paying more out of pocket for doctor visits and drugs. Employees who ask for an expensive brand-name drug when a cheaper generic is available are now paying $26 out of their own pockets on average, up from $21 a year ago. Also, the average deductible rose 37% to $276 in the common "preferred provider" plans that encourage employees to use certain doctors and hospitals.

When the economy was booming in 1999 and 2000, many companies swallowed health-care cost increases, fearing that they would lose the war for talent if they tried to push the bill on employees. The survey makes clear that those days are over. "With health costs rising rapidly and no solution on the horizon, workers can expect to pay more and get less coverage," said Drew Altman, president of the Kaiser Family Foundation, in a statement accompanying the results.

Companies are still hit hard themselves, paying an average of $5,870 for each employee with family coverage, up 12% from last year, and $2,606 for single coverage, up 14%. Companies have found they have little control over health-care inflation because it is driven largely by new treatments.

One new approach is to make employees more responsible for their own health through "consumer-driven" plans. These give employees cash at the beginning of the year to use for whatever health purposes they see fit and allow them to keep the left-over portion for the next year if they stay healthy. However, the survey found limited enthusiasm for the idea, with 6% of companies saying it is very likely they will adopt such a plan in the next five years and 17% saying it is somewhat likely.

The survey covered 3,262 randomly selected public and private employers. Of these 2,014 responded to the full survey and 1,248 merely indicated whether or not they provide health coverage.

28.10

Healthcare costs rising feverishly

Here's another dose of bitter news for workers: Your health premiums are likely to shoot up by 15 percent to 25 percent next year. Also, you'll probably pay more for emergency room visits, physicals, and prescription drugs.

Healthcare costs, which had been floating along with the economy just a few years ago, have taken off for the stratosphere. Next year, according to estimates by Hewitt Associates, large employers will shell out more than $6,300 to provide health insurance for the average worker. That's a an $820 jump from this year and double the amount from 1998, says Ken Sperling, a Hewitt healthcare practice leader.

In today's lousy business environment, many employers plan to pass on much of that increase, meaning workers will shoulder higher copayments for office visits and drugs. And employees of large companies, who pay about $80 a month for their share of premiums, will probably end up paying more than $96 a month next year, says Sperling.

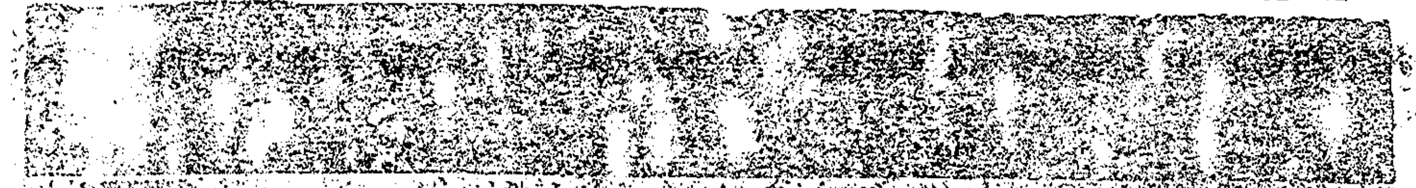
The situation at smaller companies is even worse. A study released by the Kaiser Family Foundation last week showed that the percentage of small employers offering health insurance dropped from 67 percent to 61 percent in the past year. And Kaiser researchers worry that next year's cost increases will lead even more companies to give up on health insurance.

Unfortunately, there's not much hope for relief on the horizon. Phillip Seligman, who follows the health insurance industry for Standard & Poor's, says that rate increases have allowed health insurers such as Aetna to finally pull out of their unprofitable funk of the 1990s. And they have no intention of cutting rates to unprofitable levels again.

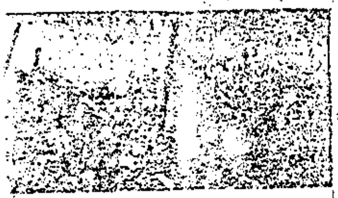
The other factors behind the rate increases aren't changing either. The average age of workers continues to rise, which means higher costs as older people tend to have more health problems. Also, doctors and hospitals are struggling with nursing and technician shortages that are driving wages up much faster than inflation. Add to that the continuing demand for access to costly new drugs and high-tech medical equipment, and you have a recipe for double-digit increases.

The only question remaining, says Kate Sullivan, director of healthcare policy for the U.S. Chamber of Commerce, is, "Something's got to give, but what is it?" She says her members are increasingly pushing responsibility for costs and decisions to workers in the hopes that a competitive market will start to temper prices. She thinks premiums will finally settle down when patients pressure doctors about their bills and start asking themselves: "Do I really need that MRI?" *–K.C.*

ILLUSTRATION BY SEAN KELLY FOR *USN&WR*



The national Christmas tree is illuminated near the White House, capping a "Pageant for Peace" celebration Thursday night. President Bush threw the switch to light up the 40-foot blue spruce. Story, 2A.



Retirees' health benefits erode

■ A study shows fewer employers are subsidizing health coverage for future retirees, increasing pressure on financially strapped Medicare.

Los Angeles Times

WASHINGTON — More than one-third of the United States' large employers that offer health care to retired workers have recently stopped such benefits for future retirees or expect to do so within the next three years, a comprehensive survey released Thursday has found.

The report highlights yet another unwelcome consequence of spiraling health-care costs, which are rising at double-digit rates even though overall inflation is well under control. It foreshadows troubling ripple effects and even tougher policy decisions ahead as elected officials confront growing numbers of Americans without health insurance.

And with fewer employers subsidizing health coverage for their retirees, the cost pressure on the strapped Medicare program will only increase.

There was a ray of good news in the survey, conducted by the Henry J. Kaiser Family Foundation and Hewitt Associates, a human-resources consulting firm. All but 5 percent of the companies surveyed said they would continue to subsidize health insurance for current retirees and their spouses.

Please see RETIREES 13A

Retirees from 1A

Yet 63 percent of them said they would continue to pass on more of the coverage costs to retirees. Over the past year alone, retiree contributions increased an average of 20 percent.

The study of 435 companies that employ more than 1,000 and offer health benefits for retired workers was conducted online between July 2 and Sept. 9.

"Employer-subsidized health-care coverage for retirees is not collapsing, but it is eroding," said Drew Altman, president of the Kaiser Family Foundation, an independent health-care philanthropy in Menlo Park, Calif.

"It's a balancing act," said Randy Johnson, head of human resources strategic initiatives for Motorola Inc. "If we're going to be able to provide jobs to future retirees" in an environment of rising costs and global competition, "we're going to have to manage costs now."

For current retirees, that is likely to mean reduced benefits and higher insurance premiums, deductibles and co-payments. But for older workers — the very age group that has the hardest time buying individual policies — it may mean no employer-provided coverage at all.

Twenty-two percent of employers surveyed — more than one in five — said they were very likely or somewhat likely to terminate health benefits for future retirees within the next three years. An additional 13 percent said they had stopped offering health benefits to future retirees over the past two years.

"This is a trend we have been watching for some time," Kate Sullivan, director of health policy for the U.S. Chamber of Commerce, said in an interview. "It means we have to look beyond employer groups to help people pay for health coverage."

Given the extremely high cost of health insurance for individuals at or near retirement age, Sullivan said, retirees deserve a tax code "that gives them the same kind of tax benefits they had when they were working."

Current fiscal policy encourages employers, in the form of a tax deduction, to provide health benefits to their employees, while also giving insured employees a tax break. They do not have to pa[y] income taxes on the value of the benefits.

Some combination of tax de[]ductions and tax-free medic[al] savings accounts or IRA withdraw[]als should be offered to retirees a[s] well, Sullivan said, at least unt[il] they qualify for Medicare.

The retiree health benefits of[]fered by employers are significan[t] in both coverage and cost.

The typical package include[s] continuing coverage for survivin[g] spouses of deceased workers; a[n] annual limit of out-of-pocket ex[]penses of $1,500 per retiree or $3,000 for a retiree and spouse; and generous — usually unlimited — prescription drug coverage.

The benefits give retirees who are younger than 65 sustained coverage that is far less expensive than an individual policy. For retirees 65 or older, the benefits provide valuable supplements — primarily in the form of drug coverage — to traditional Medicare.

The benefits provided by the surveyed companies, which cover 5.4-million retirees and their family members, cost $12.5-billion in 2001, the employers reported. Estimated costs for this year are $14.5-billion, a 16 percent increase.

On average, employers paid 60 percent of the costs.

Fewer doctors provide charity care, study says

WASHINGTON — The share of physicians providing charity care and treating Medicaid patients declined by as much as 5 percent between 1997 and last year, according to a study released Thursday.

Just 71 percent of doctors said they provided any charity care in 2001, compared with 76 percent in 1997. At the same time, the percentage of physicians who treat any Medicaid patients fell from 87 percent to 85 percent, according to the Center for Studying Health System Change, a nonpartisan policy research organization.

Physicians also limited the number of new uninsured and Medicaid patients accepted into their practices more than they did other patients with more lucrative insurance coverage.

The survey tracked changes in 12 health-care markets.

— Information from Scripps Howard News Service was used in this report.